

CITY OF LEOMINSTER, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2013

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and City Council
City of Leominster, Massachusetts

Additional Offices:
Nashua, NH
Manchester, NH
Greenfield, MA
Ellsworth, ME

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Leominster, Massachusetts, as of and for the year ended June 30, 2013 (except for the Leominster Contributory Retirement System which is as of and for the year ended December 31, 2012), and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The Town's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and

fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Leominster, Massachusetts, as of June 30, 2013 (except for the Leominster Contributory Retirement System which is as of and for the year ended December 31, 2012), and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and Schedule of Funding Progress be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The Statement of Revenues and Other Sources, and Expenditures, and Other Uses - Budget and Actual - Annually Budgeted Special Revenue Funds is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 13, 2014 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Melanson Heath

May 13, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Leominster, we offer readers this narrative overview and analysis of the financial activities of the City of Leominster for the fiscal year ended June 30, 2013. Unless otherwise noted, all amounts are expressed in thousands.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of our finances in a manner similar to a private-sector business.

The Statement of Net Position presents information on all assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position is improving or deteriorating.

The Statement of Activities presents information showing how the Government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

An annual appropriated budget is adopted for the general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. Proprietary funds are maintained as follows:

Internal service funds are an accounting device used to accumulate and allocate costs internally among various functions. Specifically, internal services funds are used to account for self-insured employee health programs and workers compensation activities. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which is required by accounting principles generally accepted in the United States of America.

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$191,798 (i.e., net position), a change of \$7,417 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$37,718, a change of \$(20) in comparison to the prior year.

- At the end of the current fiscal year, unassigned fund balance for the general fund was \$23,858 (including the City's general Stabilization fund of \$12,547), a change of \$3,077 in comparison to the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$55,780, a change of \$5,631 in comparison to the prior year.
- The City of Leominster has adopted a funding schedule to amortize the Contributory Retirement System's unfunded liability by 2019, well ahead of the Commonwealth of Massachusetts full funding requirement.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of condensed government-wide financial data for the current and prior fiscal years.

NET POSITION

	<u>Governmental Activities</u>	
	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 66,764	\$ 70,595
Capital assets	<u>249,105</u>	<u>231,760</u>
Total assets	315,869	302,355
Long-term liabilities outstanding	105,653	92,570
Other liabilities	<u>18,418</u>	<u>25,404</u>
Total liabilities	124,071	117,974
Net position:		
Net investment in capital assets	189,990	178,662
Restricted	11,604	10,154
Unrestricted	<u>(9,796)</u>	<u>(4,435)</u>
Total net position	<u>\$ 191,798</u>	<u>\$ 184,381</u>

CHANGES IN NET POSITION

	Governmental Activities	
	<u>2013</u>	<u>2012</u>
Revenues:		
Program revenues:		
Charges for services	\$ 20,788	\$ 17,705
Operating grants and contributions	64,545	64,597
Capital grants and contributions	1,003	3,535
General revenues:		
Property taxes	55,865	52,444
Excises	4,456	3,623
Penalties and interest on taxes	385	311
Grants and contributions not restricted to specific programs	11,460	21,316
Investment income	330	398
Miscellaneous	<u>1,730</u>	<u>2,370</u>
Total revenues	160,562	166,299
Expenses:		
General government	4,345	4,167
Public safety	15,596	14,531
Education	87,888	87,362
Public works	16,325	16,344
Health and human services	1,136	1,032
Culture and recreation	2,702	2,647
Employee benefits	20,457	22,175
Interest on long-term debt	1,339	1,215
Intergovernmental	<u>3,357</u>	<u>3,139</u>
Total expenses	<u>153,145</u>	<u>152,612</u>
Change in net position	7,417	13,687
Net position - beginning of year	<u>184,381</u>	<u>170,694</u>
Net position - end of year	<u>\$ 191,798</u>	<u>\$ 184,381</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net position was \$191,798, a change of \$7,417 from the prior year.

The largest portion of net position, \$189,990 reflects our investment in capital assets (e.g., infrastructure, land, buildings, machinery and equipment), less any related debt used to acquire those assets that are still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net position \$11,604, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position is \$(9,796).

Governmental activities. Governmental activities for the year resulted in an increase in net position of \$7,417. Key elements of this change are as follows:

Capital assets acquired from appropriation, grant and loan revenues	\$ 13,751
Increase in net OPEB obligation	(7,308)
Other	<u>974</u>
Total	\$ <u>7,417</u>

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$37,718, a change of \$(20) in comparison to the prior year. Key elements of this change are as follows:

General fund revenues in excess of expenditures	\$ 284
Transfer in to General fund from Internal Service fund	(202)
Other	<u>(102)</u>
Total	\$ <u>(20)</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$23,858, while total fund balance was \$28,194. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>6/30/13</u>	<u>6/30/12</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance ¹	\$ 23,858	\$ 20,781	\$ 3,077	19.2%
Total fund balance	28,194	26,503	1,691	22.7%

¹ Includes stabilization fund.

The total fund balance of the general fund changed by \$1,691 during the current fiscal year. Key factors in this change are as follows:

Use of free cash as a funding source	\$ (5,363)
Revenues in excess of budget	5,646
Expenditures less than budget	1,121
Other	<u>287</u>
Total	<u>\$ 1,691</u>

Included in the total general fund balance are the City's stabilization accounts with the following balances:

	<u>6/30/13</u>	<u>6/30/12</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
General stabilization (unassigned)	\$ 12,547	\$ 12,514	\$ 33	10.10%

In addition to the above reserves, the City also has approximately \$5,200,000 in unused levy capacity.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall increase in appropriations of \$8,220. Major reasons for these amendments include:

- \$ 269 increase in the general government budget.
- \$ 1,200 increase in the public safety budget.
- \$ 550 increase in the School Department budget.
- \$ 3,312 increase in the public works budget.
- \$ 87 increase in the human services budget.
- \$ 378 increase in the culture and recreation budget.
- \$ 144 increase in the employee benefits budget.
- \$ 555 increase in debt service.
- \$ 1,725 increase in transfers to other funds.

These increases were funded through the following sources:

- \$ 1,486 Taxes
- \$ 5,363 Free Cash
- \$ 1,371 Transfers from other available sources

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental activities at year-end amounted to \$249,105 (net of accumulated depreciation), an increase of \$17,345 from the prior year. This investment in capital assets includes land, buildings and improvements, machinery and equipment, and infrastructure.

Major capital assets events during the current fiscal year included the following:

Improvements to various City owned buildings	\$ 2,263
Departmental purchases of vehicles and equipment	2,307
Infrastructure improvements	3,166
Construction in progress, net	15,170
Depreciation expense	<u>(5,561)</u>
Total increase, net	<u>\$ 17,345</u>

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$55,780 all of which was backed by the full faith and credit of the government.

Additional information on capital assets and long-term debt can be found in the Notes to Financial Statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Leominster's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Mr. John J. Richard
City Comptroller
City of Leominster
25 West Street
Leominster, MA 01453

CITY OF LEOMINSTER, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2013

	<u>Governmental Activities</u>
ASSETS	
Current:	
Cash and short-term investments	\$ 49,545,299
Investments	4,108,347
Receivables, net of allowance for uncollectibles:	
Property taxes	788,395
Excises	933,608
User fees	2,048,717
Departmental and other	1,693,851
Intergovernmental	2,398,639
Noncurrent:	
Receivables:	
Tax title	1,072,318
Intergovernmental	978,735
Loans	3,191,454
Other assets	5,069
Land and construction in progress	152,299,068
Capital assets, net of accumulated depreciation	<u>96,805,831</u>
TOTAL ASSETS	315,869,331
LIABILITIES	
Current:	
Warrants payable	3,434,151
Retainage Payable	1,579,619
Accrued liabilities	5,078,235
Accrued payroll and withholdings	745,903
Deferred revenues	3,451,669
Notes payable	4,000,000
Other current liabilities	128,235
Current portion of long-term liabilities:	
Bonds payable	4,500,952
Landfill closure	74,150
Compensated absences	346,650
Noncurrent:	
Bonds payable, net of current portion	51,278,909
Landfill closure, net of current portion	1,600,550
Compensated absences, net of current portion	3,119,853
Net OPEB obligation	<u>44,732,429</u>
TOTAL LIABILITIES	124,071,305
NET POSITION	
Net investment in capital assets	189,989,749
Restricted for:	
Grants and other statutory restrictions	8,474,726
Permanent funds:	
Nonexpendable	819,273
Expendable	2,309,828
Unrestricted	<u>(9,795,550)</u>
TOTAL NET POSITION	\$ 191,798,026

The accompanying notes are an integral part of these financial statements.

CITY OF LEOMINSTER, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2013

	Expenses	Charges for Services	Program Revenues Operating Grants and Contributions	Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Position
Governmental Activities:					Governmental Activities
General government	\$ 4,344,725	\$ 909,171	\$ 668,844	\$ -	\$ (2,766,710)
Public safety	15,595,187	2,304,173	256,546	-	(13,034,468)
Education	87,887,851	4,030,630	62,060,911	-	(21,796,310)
Public works	16,325,312	12,048,350	860,917	1,002,742	(2,413,303)
Health and human services	1,136,443	19,857	451,351	-	(665,235)
Culture and recreation	2,701,679	410,735	246,009	-	(2,044,935)
Employee benefits	20,456,759	1,064,987	-	-	(19,391,772)
Interest	1,338,955	-	-	-	(1,338,955)
Intergovernmental	3,357,033	-	-	-	(3,357,033)
Total Governmental Activities	\$ 153,143,944	\$ 20,787,903	\$ 64,544,578	\$ 1,002,742	(66,808,721)
General Revenues:					
Property taxes					55,864,954
Excises					4,456,410
Penalties, interest and other taxes					384,826
Grants and contributions not restricted to specific programs					11,459,713
Investment income					329,528
Miscellaneous					1,730,019
Total general revenues					74,225,450
Change in Net Position					7,416,729
Net Position:					
Beginning of year					184,381,297
End of year					\$ 191,798,026

The accompanying notes are an integral part of these financial statements.

CITY OF LEOMINSTER, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2013

	General	High School Renovations Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and short-term investments	\$ 29,096,270	\$ 2,339,573	\$ 8,642,277	\$ 40,078,120
Investments	1,698,126	-	2,410,221	4,108,347
Receivables:				
Property taxes	3,817,036	-	-	3,817,036
Excises	1,572,224	-	-	1,572,224
User fees	-	-	2,269,477	2,269,477
Departmental and other	2,227,228	-	35,315	2,262,543
Loans	-	-	3,191,454	3,191,454
Other	-	-	5,069	5,069
Intergovernmental	-	1,613,978	1,763,396	3,377,374
TOTAL ASSETS	\$ 38,410,884	\$ 3,953,551	\$ 18,317,209	\$ 60,681,644
LIABILITIES				
Warrants payable	\$ 2,028,500	\$ 259,209	\$ 1,146,441	\$ 3,434,150
Retainage payable	-	1,567,199	12,420	1,579,619
Accrued payroll and withholdings	745,903	-	-	745,903
Notes payable	-	4,000,000	-	4,000,000
Other liabilities	128,235	-	-	128,235
TOTAL LIABILITIES	2,902,638	5,826,408	1,158,861	9,887,907
DEFERRED INFLOWS OF RESOURCES	7,314,274	-	5,761,531	13,075,805
FUND BALANCES				
Nonspendable	1,869	-	819,473	821,342
Restricted	-	-	11,803,713	11,803,713
Assigned	4,334,102	-	-	4,334,102
Unassigned	23,858,001	(1,872,857)	(1,226,369)	20,758,775
TOTAL FUND BALANCES	28,193,972	(1,872,857)	11,396,817	37,717,932
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 38,410,884	\$ 3,953,551	\$ 18,317,209	\$ 60,681,644

The accompanying notes are an integral part of these financial statements.

CITY OF LEOMINSTER, MASSACHUSETTS
RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET POSITION OF GOVERNMENTAL
ACTIVITIES IN THE STATEMENT OF NET POSITION

JUNE 30, 2013

Total governmental fund balances	\$ 37,717,932
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	249,104,899
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	6,239,744
• Internal service funds are used by management to account for health insurance and workers' compensation activities. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Position.	4,782,168
• In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(393,224)
• Long-term liabilities, including bonds payable, landfill closure costs, other post-employment benefits and compensated absences, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(105,653,493)</u>
Net position of governmental activities	\$ <u>191,798,026</u>

The accompanying notes are an integral part of these financial statements.

CITY OF LEOMINSTER, MASSACHUSETTS
GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2013

	General	High School Renovations Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Property taxes	\$ 55,153,430	\$ -	\$ -	\$ 55,153,430
Excises	4,074,636	-	-	4,074,636
Penalties, interest and other taxes	384,826	-	-	384,826
Charges for services	1,815,489	-	16,018,143	17,833,632
Intergovernmental	59,915,524	6,258,866	9,992,380	76,166,770
Licenses and permits	965,091	-	-	965,091
Fines and forfeitures	244,940	-	-	244,940
Investment income	243,029	-	86,499	329,528
Miscellaneous	1,709,257	-	797,030	2,506,287
Total Revenues	124,506,222	6,258,866	26,894,052	157,659,140
Expenditures:				
Current:				
General government	3,434,553	-	684,685	4,119,238
Public safety	15,999,582	-	538,285	16,537,867
Education	75,751,458	13,479,648	11,879,580	101,110,686
Public works	7,049,663	-	8,185,111	15,234,774
Health and human services	903,042	-	5,064,207	5,967,249
Culture and recreation	1,833,231	-	389,074	2,222,305
Employee benefits	13,742,710	-	-	13,742,710
Debt service	2,150,636	-	2,593,807	4,744,443
Intergovernmental	3,357,033	-	-	3,357,033
Total Expenditures	124,221,908	13,479,648	29,334,749	167,036,305
Excess (deficiency) of revenues over expenditures	284,314	(7,220,782)	(2,440,697)	(9,377,165)
Other Financing Sources (Uses):				
Proceeds from bonds	-	9,155,000	-	9,155,000
Transfers in	3,431,365	300,000	1,724,527	5,455,892
Transfers out	(2,024,527)	-	(3,229,365)	(5,253,892)
Total Other Financing Sources (Uses)	1,406,838	9,455,000	(1,504,838)	9,357,000
Change in fund balance	1,691,152	2,234,218	(3,945,535)	(20,165)
Fund Equity, at Beginning of Year	26,502,820	(4,107,075)	15,342,352	37,738,097
Fund Equity, at End of Year	\$ 28,193,972	\$ (1,872,857)	\$ 11,396,817	\$ 37,717,932

The accompanying notes are an integral part of these financial statements.

CITY OF LEOMINSTER, MASSACHUSETTS

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2013

Net changes in fund balances - Total governmental funds	\$ (20,165)																				
<ul style="list-style-type: none"> Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: <table> <tr> <td>Capital outlay purchases, net of disposals and conversions</td><td>22,905,629</td></tr> <tr> <td>Depreciation</td><td>(5,560,553)</td></tr> </table> Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures, and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue. <table> <tr> <td></td><td>1,836,546</td></tr> </table> The issuance of long-term debt (e.g., bonds payable) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position: <table> <tr> <td>Issuance of bonds</td><td>(9,155,000)</td></tr> <tr> <td>Repayments of debt principal</td><td>3,524,019</td></tr> </table> In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. <table> <tr> <td></td><td>(118,532)</td></tr> </table> Some expenses reported in the Statement of Activities, such as other post-employment benefits, compensated absences and landfill closure, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. <table> <tr> <td>Increase in net OPEB obligation</td><td>(7,308,132)</td></tr> <tr> <td>Increase in compensated absences liability</td><td>(218,304)</td></tr> <tr> <td>Decrease in landfill liability</td><td>74,150</td></tr> </table> Internal service funds are used by management to account for health insurance and workers' compensation activities. The net activity of internal service funds is reported with Governmental Activities. <table> <tr> <td></td><td><u>1,457,071</u></td></tr> </table> 	Capital outlay purchases, net of disposals and conversions	22,905,629	Depreciation	(5,560,553)		1,836,546	Issuance of bonds	(9,155,000)	Repayments of debt principal	3,524,019		(118,532)	Increase in net OPEB obligation	(7,308,132)	Increase in compensated absences liability	(218,304)	Decrease in landfill liability	74,150		<u>1,457,071</u>	
Capital outlay purchases, net of disposals and conversions	22,905,629																				
Depreciation	(5,560,553)																				
	1,836,546																				
Issuance of bonds	(9,155,000)																				
Repayments of debt principal	3,524,019																				
	(118,532)																				
Increase in net OPEB obligation	(7,308,132)																				
Increase in compensated absences liability	(218,304)																				
Decrease in landfill liability	74,150																				
	<u>1,457,071</u>																				
Change in net position of governmental activities	\$ <u>7,416,729</u>																				

The accompanying notes are an integral part of these financial statements.

CITY OF LEOMINSTER, MASSACHUSETTS
GENERAL FUND

STATEMENT OF REVENUES AND OTHER SOURCES, AND EXPENDITURES AND OTHER USES - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
	Budget	Budget		Positive
				(Negative)
Revenues and Transfers In:				
Taxes	\$ 52,826,916	\$ 54,312,916	\$ 54,312,916	\$ -
Excise	2,500,000	2,500,000	4,074,636	1,574,636
Penalties, interest and other taxes	183,000	183,000	384,826	201,826
Charges for services	1,517,247	1,517,247	1,845,287	328,040
Intergovernmental	48,443,159	48,443,159	48,476,358	33,199
Licenses and permits	411,000	411,000	965,091	554,091
Fines and forfeits	110,000	110,000	215,004	105,004
Investment income	50,000	50,000	136,634	86,634
Miscellaneous	1,700,000	1,700,000	2,401,816	701,816
Transfers in	-	1,370,623	3,431,365	2,060,742
Total Revenues and Other Sources	107,741,322	110,597,945	116,243,933	5,645,988
Expenditures and Transfers Out:				
General government	3,392,933	3,662,092	3,601,127	60,965
Public safety	13,931,342	15,131,304	14,571,197	560,107
Education	63,466,000	64,015,644	63,956,874	58,770
Public works	5,069,427	8,381,974	8,211,733	170,241
Health and human services	851,445	938,729	917,417	21,312
Culture and recreation	1,747,958	2,125,716	2,119,554	6,162
Debt service	2,495,299	3,050,299	3,025,636	24,663
Intergovernmental	3,400,322	3,400,322	3,357,033	43,289
Employee benefits	13,386,596	13,530,457	13,355,454	175,003
Transfers out	-	1,724,527	1,724,527	-
Total Expenditures and Other Uses	107,741,322	115,961,064	114,840,552	1,120,512
Excess of revenues and transfers in over expenditures and transfers out	-	(5,363,119)	1,403,381	6,766,500
Other Financing Source:				
Use of fund balance (free cash)	-	5,363,119	-	(5,363,119)
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 1,403,381	\$ 1,403,381

The accompanying notes are an integral part of these financial statements.

CITY OF LEOMINSTER, MASSACHUSETTS

PROPRIETARY FUND

STATEMENT OF NET POSITION

JUNE 30, 2013

	Internal Service <u>Fund</u>
ASSETS	
Current:	
Cash and short-term investments	\$ <u>9,467,178</u>
TOTAL ASSETS	9,467,178
LIABILITIES	
Current:	
Accrued claims payable	<u>4,685,010</u>
TOTAL LIABILITIES	4,685,010
NET POSITION	
Unrestricted	<u>4,782,168</u>
TOTAL NET POSITION	\$ <u><u>4,782,168</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF LEOMINSTER, MASSACHUSETTS

PROPRIETARY FUND

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2013

	Internal Service Fund
Operating Revenues:	
Employee and employer contributions	\$ 19,834,122
Total Operating Revenues	19,834,122
Operating Expenses:	
Employee benefits	18,175,051
Total Operating Expenses	18,175,051
Operating income	1,659,071
Transfers:	
Transfers out	(202,000)
Change in Net Position	1,457,071
Net Position at Beginning of Year	3,325,097
Net Position at End of Year	\$ 4,782,168

The accompanying notes are an integral part of these financial statements.

CITY OF LEOMINSTER, MASSACHUSETTS

PROPRIETARY FUND

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2013

	Internal Service Fund
<u>Cash Flows From Operating Activities:</u>	
Receipts from employees and employer	\$ 19,834,122
Payments of employee benefits and expenses	<u>(18,740,041)</u>
Net Cash Provided By Operating Activities	1,094,081
<u>Cash Flows From Noncapital Financing Activities:</u>	
Transfers out	<u>(202,000)</u>
Net Change in Cash and Short-Term Investments	892,081
Cash and Short-Term Investments, Beginning of Year	<u>8,575,097</u>
Cash and Short-Term Investments, End of Year	<u>\$ 9,467,178</u>
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</u>	
Operating Income	\$ 1,659,071
Changes in assets and liabilities:	
Accrued liabilities	<u>(564,990)</u>
Net Cash Provided By Operating Activities	<u>\$ 1,094,081</u>

The accompanying notes are an integral part of these financial statements.

CITY OF LEOMINSTER, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2013

	Other Post- Employment Benefits <u>Trust Fund</u>	Pension Trust Fund (As of <u>December 31, 2012</u>)	Agency <u>Funds</u>
<u>ASSETS</u>			
Cash and short-term investments	\$ 5,016,150	\$ 594,842	\$ 768,342
Investments	-	116,514,754	-
Accounts receivable	-	-	111,149
Other assets	-	-	446,163
Total Assets	5,016,150	117,109,596	1,325,654
<u>LIABILITIES AND NET POSITION</u>			
Deferred revenue	-	-	96,781
Guarantee deposits	-	-	586,215
Other liabilities	-	3,792,316	642,658
Total Liabilities	-	3,792,316	1,325,654
<u>NET POSITION</u>			
Total net position held in trust for OPEB and pension benefits	\$ <u>5,016,150</u>	\$ <u>113,317,280</u>	\$ <u>-</u>

The accompanying notes are an integral part of these financial statements.

CITY OF LEOMINSTER, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FOR THE YEAR ENDED JUNE 30, 2013

	Other Post- Employment Benefits <u>Trust Fund</u>	Pension Trust Fund (For the year ended December 31, 2012)
Additions:		
Contributions:		
Employers	\$ -	\$ 7,473,032
Other systems and Commonwealth of Massachusetts	-	337,323
Plan members	-	2,525,507
Contributions	2,850,234	-
Other	-	75,571
Total contributions	<u>2,850,234</u>	<u>10,411,433</u>
Investment Income:		
Change in fair value of investments	-	15,323,692
Management fees	-	(596,982)
Net investment income	<u>-</u>	<u>14,726,710</u>
Total additions	<u>2,850,234</u>	<u>25,138,143</u>
Deductions:		
Benefit payments to plan members and beneficiaries	-	8,050,229
Refunds to plan members	-	289,953
Reimbursements to other systems	-	131,353
Administrative expenses	-	141,640
Total deductions	<u>-</u>	<u>8,613,175</u>
Net increase	<u>2,850,234</u>	<u>16,524,968</u>
Net position:		
Beginning of year	<u>2,165,916</u>	<u>96,792,312</u>
End of year	<u>\$ 5,016,150</u>	<u>\$ 113,317,280</u>

The accompanying notes are an integral part of these financial statements.

City of Leominster, Massachusetts

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of the City of Leominster (the City) conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

A. Reporting Entity

The Government is a municipal corporation governed by an elected City Council. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable.

The Leominster Contributory Retirement System which was established to provide retirement benefits primarily to employees and their beneficiaries. The Contributory Retirement System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements. Additional financial information of the Contributory Retirement System can be obtained by contacting the Contributory Retirement System located at Leominster City Hall, 25 West Street, Leominster, MA 01453.

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. *Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

Government-wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and excises.

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The government reports the following major governmental funds:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

- The *high school renovations capital project fund*, which accounts for revenue and costs associated with renovations of the High School.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The government reports the following proprietary fund:

- *Internal Service Funds* - To account for goods or services provided by one City department or agency to other City departments or agencies. The City accounts for its self-insured health and workers compensation funds as internal service funds.

The *Other Post-Employment Trust fund* is used to accumulate resources for health and life insurance benefits for retired employees.

The *pension trust fund* accounts for the activities of the Leominster Contributory Retirement System, which accumulates resources for pension benefit payments to qualified employees.

The *Agency Funds* account for fiduciary assets held by the City in a custodial capacity as an agent on behalf of others. Agency funds report only assets and liabilities, and therefore, have no measurement focus.

D. Cash and Short-Term Investments

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash balances are invested to the extent available, and interest earnings are recognized in the General Fund. Certain special revenue, proprietary, and fiduciary funds segregate cash, and investment earnings become a part of those funds.

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and cash equivalents". The interest earnings attributable to each fund type are included under investment income.

For purpose of the Statement of Cash Flows, the proprietary funds consider investments with original maturities of three months or less to be cash equivalents.

E. Investments

State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued by or unconditionally guaranteed by the U.S. Government or agencies that have a maturity of one year or less from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

Investments consist of marketable securities, bonds and short-term money market investments. Investments are carried at market value.

F. Property Tax Limitations

Legislation known as "Proposition 2½" limits the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2½ percent (excluding new growth), unless an override or debt exemption is voted. The actual fiscal year 2013 tax levy reflected an excess capacity of \$5,234,643.

G. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the Government as assets with an initial individual cost of more than \$20,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	20
Infrastructure	25
Vehicles	5 - 10
Office equipment	5
Computer equipment	5

H. Compensated Absences

It is the Government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vested sick and vacation pay is accrued when incurred in the government-wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

I. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position.

J. Fund Equity

Fund equity at the governmental fund financial reporting level is classified as "fund balance". Fund equity for all other reporting is classified as "net position".

Fund Balance - Generally, fund balance represents the difference between the current assets and current liabilities. The City reserves those portions of fund balance that are legally segregated for a specific future use or which do not represent available, spendable resources and therefore, are not available for appropriation or expenditure. Unassigned fund balance indicates that portion of fund balance that is available for appropriation in future periods.

The City's fund balance classification policies and procedures are as follows:

- 1) Nonspendable funds are either unspendable in the current form (i.e., inventory or prepaid items) or can never be spent (i.e., perpetual care).
- 2) Restricted funds are used solely for the purpose in which the fund was established. In the case of special revenue funds, these funds

are created by statute or otherwise have external constraints on how the funds can be expended.

- 3) Committed funds are reported and expended as a result of motions passed by the highest decision making authority in the government (i.e., the City Council).
- 4) Assigned funds are used for specific purposes as established by management. These funds, which include encumbrances, have been assigned for specific goods and services ordered but not yet paid for. This account also includes fund balance (free cash) voted to be used in the subsequent fiscal year.
- 5) Unassigned funds are available to be spent in future periods.

When an expenditure is incurred that would qualify for payment from multiple fund balance types, the City uses the following order to liquidate liabilities: restricted, committed, assigned, and unassigned.

Net Position - Net position represents the difference between assets/deferred outflows and liabilities/deferred inflows. Net investment in capital assets, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The remaining net position is reported as unrestricted.

K. Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures for contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

2. Stewardship, Compliance and Accountability

A. Budgetary Information

The Mayor presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by the City Council, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at City Council meetings as required by changing conditions. In cases of

extraordinary or unforeseen expenses, the City Council is empowered to transfer funds from the Reserve Fund (a contingency appropriation) to a departmental appropriation. "Extraordinary" includes expenses which are not in the usual line, or are great or exceptional. "Unforeseen" includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted.

Departments are limited to the line items as voted. Certain items may exceed the line item budget as approved if it is for an emergency and for the safety of the general public. These items are limited by the Massachusetts General Laws and must be raised in the next year's tax rate.

Formal budgetary integration is employed as a management control device during the year for the General Fund. Effective budgetary control is achieved for all other funds through provisions of the Massachusetts General Laws.

At year-end, appropriation balances lapse, except for certain unexpended capital items and encumbrances which will be honored during the subsequent year.

B. Budgetary Basis

The General Fund final appropriation appearing on the "Budget and Actual" page of the fund financial statements represents the final amended budget after all reserve fund transfers and supplemental appropriations.

C. Budget/GAAP Reconciliation

The budgetary data for the general and certain special revenue funds is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general, water and sewer funds are presented in accordance with budgetary accounting principles to provide a meaningful comparison to budgetary data.

The following is a summary of adjustments made to the actual revenues and other sources, and expenditures and other uses, to conform to the budgetary basis of accounting.

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP Basis)	\$ 124,506,222	\$ 124,221,908
Other financing sources/uses (GAAP Basis)	<u>3,431,365</u>	<u>2,024,527</u>
Subtotal (GAAP Basis)	127,937,587	126,246,435
Adjust tax revenue to accrual basis	(444,540)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(5,077,917)
Add end-of-year appropriation carryforwards from expenditures	-	4,334,102
To reverse the effect of non- budgeted State contributions for teachers retirement	(10,746,744)	(10,746,744)
Other	<u>(502,370)</u>	<u>84,676</u>
Budgetary Basis	<u>\$ 116,243,933</u>	<u>\$ 114,840,552</u>

D. Deficit Fund Equity

The following funds had deficits as of June 30, 2013:

High School Renovations Fund	\$ 1,872,857
Nonmajor Governmental Funds	
Water System Improvements Fund	303,495
Police Cops Hiring Grant	249,363
Various Capital Project Funds	179,523
Police E-911 Incentive Grant	115,628
Office of Justice Program	86,351
Highway State Aid	50,583
Various other City Special Revenue Funds	69,574
Various other School Special Revenue Funds	<u>171,852</u>
Total	<u>\$ 3,099,226</u>

The deficits in these funds will be eliminated through future departmental revenues, bond proceeds, and transfers from other funds.

3. Cash and Short-Term Investments

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. Massachusetts General Law Chapter 44, Section 55, limits deposits "in a bank or trust company or banking company to an amount not exceeding sixty per cent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess." The City and the Contributory Retirement System do not have a deposit policy for custodial credit risk.

As of June 30, 2013, \$39,091,062 of the City's bank balance of \$62,779,579 was exposed to custodial credit risk as uninsured or uncollateralized. \$7,700,989 of the exposed balance was on deposit with the Massachusetts Municipal Depository Trust (MMDT).

As of December 31, 2012, \$101,473 of the Contributory Retirement System's bank balance of \$671,548 was exposed to custodial risk as uninsured, uncollateralized, and collateral held by pledging bank's Trust Department not in the Contributory Retirement System's name. The exposed balance was on deposit with the Massachusetts Municipal Depository Trust (MMDT).

4. Investments

A. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. For short-term investments that were purchased using surplus revenues, Massachusetts General Law, Chapter 44, Section 55, limits the City's investments to the top rating issued by at least one nationally recognized statistical rating organization (NRSROs).

Presented below is the actual rating as of year-end for each investment of the City:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year-end</u>	
			<u>A-</u>	<u>BBB+</u>
Certificates of deposits	\$ 2,838,322	\$ 2,838,322	\$ -	\$ -
Corporate equities	1,181,790	1,181,790	-	-
Corporate bonds	19,849	-	9,898	9,951
Mutual funds	43,469	43,469	-	-
Federal agency securities	24,917	24,917	-	-
Total investments	<u>\$ 4,108,347</u>	<u>\$ 4,088,498</u>	<u>\$ 9,898</u>	<u>\$ 9,951</u>

Massachusetts General Law, Chapter 32, Section 23, limits the investment of Contributory Retirement System funds, to the extent not required for current disbursements, in the PRIT Fund or in securities, other than mortgages or collateral loans, which are legal for the investment of funds in savings banks under the laws of the Commonwealth, provided that no more than the established percentage of assets is invested in any one security.

Presented below is the actual rating as of year-end of the Contributory Retirement System:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Exempt From Disclosure</u>
Pooled global equity	\$ 28,297,000	\$ 28,297,000
Pooled international equity	13,322,361	13,322,361
Pooled domestic equities	5,792,649	5,792,649
Pooled alternative investments	3,609,345	3,609,345
State investment pool *	<u>65,493,399</u>	<u>65,493,399</u>
Total investments	<u>\$ 116,514,754</u>	<u>\$ 116,514,754</u>

* Fair value is the same as the value of the pool share. The Pension Reserves Investment Trust was created under Massachusetts General Law, Chapter 32, Section 22, in December 1983. The Pension Reserves Investment Trust is operated under contract with a private investment advisor, approved by the Pension Reserves Investment Management Board. The Pension Reserves Investment Management Board shall choose an investment advisor by requesting proposals from advisors and reviewing such proposals based on criteria adopted under Massachusetts General Law, Chapter 30B.

B. Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The City and the Contributory Retirement System do not have policies for custodial credit risk.

All of the City's investments of \$4,108,347 are exposed to custodial credit risk because the related securities are uninsured, unregistered and held by the City's brokerage firm (which is also the Counterparty to these securities) but are not in the City's name.

All of the Contributory Retirement Systems' investments of \$116,514,754 are exposed to custodial credit risk because the related securities are uninsured, unregistered and held by the City's brokerage firm (which is

also the Counterparty to these securities) but are not in the System's name.

C. Concentration of Credit Risk

The City places no limit on the amount the City may invest in any one issuer. Investments in any one issuer (other than U.S. Treasury securities and mutual funds) that represent 5% or more of total investments are as follows:

<u>Investment Issuer</u>	<u>Amount</u>
Ally Bank Midvale Utah CD	\$ 243,824
BMW Bk North America Salt Lake City	242,212
Banco Bilbao Argentaria CD	240,058
Discover Bk Greenwood Del. CD	243,824
Goldman Sachs Bk USA New York	243,824
American Express Centurion Bk Cd	245,318
Everbank Jacksonville Fla CD	244,770
FirstBank PR Santurce CD	240,485
JP Morgan Chase Bk NA Columbus CD	241,538
Oriental Bank San Juan PR	242,207
State Bank India New York CD	241,654
Total	<u>\$ 2,669,714</u>

The Contributory Retirement System places no limit on the amount the System may invest in any one issuer. The System does not have investments in one issue greater than 5% of total investments.

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City and the Contributory Retirement System do not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Information about the sensitivity of the fair values of the City's investments to market interest rate fluctuations is as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities</u> <u>(in Years)</u>	
		<u>Less Than 1</u>	<u>1-5</u>
Certificates of deposit	\$ 2,838,322	\$ 735,354	\$ 2,102,298
Corporate bonds	19,849	9,951	9,898
Federal agency securities	<u>24,917</u>	<u>-</u>	<u>24,917</u>
Total	<u>\$ 2,883,088</u>	<u>\$ 745,305</u>	<u>\$ 2,137,113</u>

Information about the sensitivity of the fair values of the Contributory Retirement System's investments to market interest rate fluctuations is not applicable as all of the System's investments are immediately liquid.

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The City and the Contributory Retirement System do not have policies for foreign currency risk.

5. Taxes Receivable

Real estate and personal property taxes are levied and based on values assessed on January 1 of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on a quarterly basis and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year they relate to.

Fourteen days after the due date for the final tax bill for real estate taxes, a demand notice may be sent to the delinquent taxpayer. Fourteen days after the demand notice has been sent, the tax collector may proceed to file a lien against the delinquent taxpayers' property. The City has an ultimate right to foreclose on property for unpaid taxes. Personal property taxes cannot be secured through the lien process.

Taxes receivable at June 30, 2013 consist of the following:

Real Estate		
2013	\$ 688,759	
2012	5,867	
2011	4,397	
2010 and Prior	<u>34,028</u>	
		733,051
Personal Property		
2013	34,310	
2012	28,084	
2011	24,941	
2010 and Prior	<u>308,751</u>	
		396,086
Tax Liens		2,144,636
Tax Foreclosure		525,523
Deferred Taxes		3,777
Taxes in Litigation		<u>13,963</u>
Total		<u>\$ 3,817,036</u>

6. Allowance for Doubtful Accounts

The receivables reported in the accompanying entity-wide financial statements reflect the following estimated allowances for doubtful accounts.

	<u>Governmental</u>
Property taxes	\$ 344,520
Tax liens and foreclosures	1,611,803
Excises	638,616
Ambulance	568,692
Water/sewer charges	220,760

7. Loans and Intergovernmental Receivables

The loan receivable balance in the Non-Major Governmental Funds represents various deferred payment loans made to residents through the City's Federal and State grant programs \$3,191,454 which has been deferred.

The current intergovernmental receivable balance reported in the accompanying financial statements represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2013. This includes the balance of loan commitments from the Massachusetts Water Pollution Abatement Trust less the amounts drawn down in fiscal year 2013

and prior and reported as a notes payable and intergovernmental revenue at June 30, 2013.

	<u>Non-Major Governmental Funds</u>	
	<u>Sewer System Improvement Fund</u>	<u>Water System Improvement Fund</u>
MWPAT Loan Commitment	\$ <u>11,835,720</u>	\$ <u>2,100,349</u>
Subtotal	11,835,720	2,100,349
Loan Drawdown	<u>(10,856,985)</u>	<u>(2,100,349)</u>
Remaining Project Funds (Intergovernmental Receivable)	\$ <u>978,735</u>	\$ <u>-</u>

8. Capital Assets

Capital asset activity for the year ended June 30, 2013 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and land improvements	\$ 114,984,753	\$ 2,262,516	\$ -	\$ 117,247,269
Machinery, equipment, and furnishings	15,803,444	2,307,537	-	18,110,981
Infrastructure	38,338,533	3,165,755	-	41,504,288
Total capital assets, being depreciated	169,126,730	7,735,808	-	176,862,538
Less accumulated depreciation for:				
Buildings and land improvements	(49,210,729)	(2,335,232)	-	(51,545,961)
Machinery, equipment, and furnishings	(10,063,660)	(1,214,484)	-	(11,278,144)
Infrastructure	(15,221,765)	(2,010,837)	-	(17,232,602)
Total accumulated depreciation	(74,496,154)	(5,560,553)	-	(80,056,707)
Total capital assets, being depreciated, net	94,630,576	2,175,255	-	96,805,831
Capital assets, not being depreciated:				
Land	76,344,333	-	-	76,344,333
Construction in progress	60,784,914	20,457,921	(5,288,100)	75,954,735
Total capital assets, not being depreciated	137,129,247	20,457,921	(5,288,100)	152,299,068
Governmental activities capital assets, net	\$ <u>231,759,823</u>	\$ <u>22,633,176</u>	\$ <u>(5,288,100)</u>	\$ <u>249,104,899</u>

Depreciation expense was charged to functions of the City as follows:

Governmental Activities:

General government	\$ 272,767
Public safety	443,189
Education	1,969,071
Public works	2,026,397
Health and human services	223,129
Culture and recreation	<u>626,000</u>
Total depreciation expense - governmental activities	<u>\$ 5,560,553</u>

9. Warrants and Accounts Payable

Warrants payable represent 2013 expenditures paid by July 15, 2013 as permitted by law. Accounts payable represent additional 2013 expenditures paid after July 15, 2013.

10. Notes Payable

The City had the following loans and notes outstanding at June 30, 2013:

	Interest Rate	Date of Issue	Date of Maturity	Balance End of Year
High School Remodel/Reconstruction	0.55%	6/25/13	2/25/14	\$ 3,000,000
High School Remodel/Reconstruction	0.45%	6/25/13	2/25/14	<u>1,000,000</u>
Total				<u>\$ 4,000,000</u>

The following summarizes activity in loans and notes payable during fiscal year 2013:

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
High School Remodel/Reconstruction	\$ 8,000,000	\$ -	\$ (8,000,000)	\$ -
High School Remodel/Reconstruction	-	3,000,000	-	3,000,000
High School Remodel/Reconstruction	<u>-</u>	<u>1,000,000</u>	<u>-</u>	<u>1,000,000</u>
Total	<u>\$ 8,000,000</u>	<u>\$ 4,000,000</u>	<u>\$ (8,000,000)</u>	<u>\$ 4,000,000</u>

11. Other Liabilities

The General Fund balance of other liabilities consists primarily of unclaimed checks (tailings).

12. Long-Term Debt

A. General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds currently outstanding are as follows:

<u>Bonds Payable:</u>	<u>Serial</u> <u>Maturities</u> <u>Through</u>	<u>Interest</u> <u>Rate(s) %</u>	<u>Amount</u> <u>Outstanding</u> <u>as of</u> <u>6/30/13</u>
Library construction	11/01/17	3.75 - 4.375	\$ 2,315,000
Sewer improvement	05/01/18	2.25 - 4	1,050,000
Library construction	05/01/18	2.25 - 4	2,225,000
Sewer inflow/infiltration (MWPAT)	08/01/18	1.5	107,300
Sewer inflow/infiltration (MWPAT)	08/01/18	1.5	355,000
Sewer inflow/infiltration (MWPAT)	08/01/19	1.5	985,000
Harvard Street sewer (MWPAT)	08/01/19	1.5	644,890
Water (MWPAT)	08/01/19	1.5	1,900,000
Harvard Street sewer (MWPAT)	08/01/19	1.5	515,000
School remodel & reconstruction	12/15/21	2.00 - 3.00	9,155,000
Water improvements	05/01/25	3.50 - 5	2,220,000
School design	10/24/28	3.75 - 5	325,000
Watershed land purchase	10/24/28	3.75 - 5	380,000
Water system improvement # 2	10/24/28	3.75 - 5	855,000
Water (MWPAT)	07/15/30	2.0	6,471,566
Water (MWPAT)	07/15/30	2.0	7,002,819
Sewer (MWPAT)	07/15/30	2.0 ⁽¹⁾	5,337,217
Water (MWPAT)	07/15/32	2.0	2,100,349
Sewer (MWPAT)	07/15/32	2.0 ⁽¹⁾	11,835,720
Total Bonds Payable:			<u>\$ 55,779,861</u>

⁽¹⁾Amended to zero percent effective fiscal year 2014.

B. Future Debt Service

The annual principal payments to retire all general obligation long-term debt outstanding as of June 30, 2013 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 4,500,952	\$ 1,249,642	\$ 5,750,594
2015	4,410,811	1,134,763	5,545,574
2016	4,286,394	1,012,658	5,299,052
2017	4,577,717	896,991	5,474,708
2018	4,629,790	781,942	5,411,732
2019 - 2023	15,714,800	2,660,513	18,375,313
2024 - 2028	9,971,516	1,297,647	11,269,163
2029-2033	7,687,881	316,453	8,004,334
Total	<u>\$ 55,779,861</u>	<u>\$ 9,350,609</u>	<u>\$ 65,130,470</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2013, the following changes occurred in long-term liabilities:

	Total Balance <u>7/1/12</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/13</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/13</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 50,148,880	\$ 9,155,000	\$ (3,524,019)	\$ 55,779,861	\$ (4,500,952)	\$ 51,278,909
Landfill Closure	1,748,850	-	(74,150)	1,674,700	(74,150)	1,600,550
Compensated absences	3,248,199	219,947	(1,643)	3,466,503	(346,650)	3,119,853
Net OPEB obligation	37,424,297	17,500,250	(10,192,118)	44,732,429	-	44,732,429
Totals	<u>\$ 92,570,226</u>	<u>\$ 26,875,197</u>	<u>\$ (13,791,930)</u>	<u>\$ 105,653,493</u>	<u>\$ (4,921,752)</u>	<u>\$ 100,731,741</u>

13. Landfill Closure and Post-Closure Care Costs

State and Federal laws and regulations require the City to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The City's landfill has been closed for several years and the City has filed a formal closure and monitoring plan with the Commonwealth. The \$1,674,700 reported as landfill post-closure care liability at June 30, 2013 represents the annual cost of monitoring for the next 19 years. This amount is based on what it would cost to perform all post-closure care in 2013. Actual cost may be higher due to inflation, changes in technology, or changes in regulations. The City expects to fund the cost of monitoring through annual departmental appropriations.

14. Deferred Inflows of Resources

The City implemented GASB 65, *Items Previously Reported as Assets and Liabilities*. Deferred inflows of resources are the acquisition of net position by

the City that is applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities.

Governmental funds report *unavailable revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

The balance of the General Fund *unavailable revenues* account is equal to the total of all June 30, 2013 receivable balances, except real and personal property taxes that are accrued for 60-day collections.

15. **Restricted Net Position**

The accompanying entity-wide financial statements report restricted net position when external constraints from grantors or contributors are placed on net position.

Permanent fund restricted net position is segregated between nonexpendable and expendable. The nonexpendable portion represents the original restricted principal contribution, and the expendable represents accumulated earnings which are available to be spent based on donor restrictions.

16. **Subsequent Events**

Debt

Subsequent to June 30, 2013, the City has incurred the following additional debt:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
Bond Anticipation Notes - Fallbrook School Renovation	\$ 1,000,000	0.40%	02/25/14	06/27/14
Bond Anticipation Notes - Southeast School Renovation	\$ 3,000,000	0.50%	02/25/14	06/27/14

The Massachusetts Water Pollution Abatement Trust approved a change from a two percent interest rate to a zero percent interest rate on City loans CWS-09-20 and CWS-09-20-A in fiscal year 2014.

17. **Governmental Funds - Balances**

Fund balances are segregated to account for resources that are either not available for expenditure in the future or are legally set aside for a specific future use.

The City implemented GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying existing governmental fund type definitions.

The following types of fund balances are reported at June 30, 2013:

Nonspendable - Represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. This fund balance classification includes general fund reserves for prepaid expenditures and nonmajor governmental fund reserves for the principal portion of permanent trust funds.

Restricted - Represents amounts that are restricted to specific purposes by constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. This fund balance classification includes general fund encumbrances funded by bond issuances, various special revenue funds, and the income portion of permanent trust funds.

Committed - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City's highest level of decision-making authority. This fund balance classification includes general fund encumbrances for non-lapsing, special article appropriations approved at Council Meetings, capital reserve funds set aside by Council Meetings vote for future capital acquisitions and improvements (now reported as part of the general fund per GASB 54), and various special revenue funds.

Assigned - Represents amounts that are constrained by the City's intent to use these resources for a specific purpose. This fund balance classification includes general fund encumbrances that have been established by various City departments for the expenditure of current year budgetary financial resources upon vendor performance in the subsequent budgetary period.

Following is a breakdown of the City's fund balances at June 30, 2013:

	General Fund	High School Renovations	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable				
Reserve for petty cash	\$ 1,869	\$ -	\$ -	\$ 1,869
Nonexpendable permanent funds	-	-	819,473	819,473
Total Nonexpendable	1,869	-	819,473	821,342
Restricted				
Bonded projects	-	-	968,206	968,206
Sewer	-	-	1,365,546	1,365,546
Water	-	-	423,986	423,986
School choice	-	-	2,247,895	2,247,895
Circuit breaker	-	-	1,292,133	1,292,133
Daycare Fees	-	-	251,732	251,732
Pre-Kindergarten Fees	-	-	360,660	360,660
Gallagher Building	-	-	365,522	365,522
Other special revenue funds	-	-	2,217,726	2,217,726
Expendable permanent funds	-	-	2,310,307	2,310,307
Total Restricted	-	-	11,803,713	11,803,713
Assigned				
Encumbrances				
General government	1,262,890	-	-	1,262,890
Public safety	595,692	-	-	595,692
Education	549,608	-	-	549,608
Public works	1,212,875	-	-	1,212,875
Health and human services	22,789	-	-	22,789
Culture and recreation	413,465	-	-	413,465
Employee benefits	276,783	-	-	276,783
Total Assigned	4,334,102	-	-	4,334,102
Unassigned ¹	23,858,001	(1,872,857)	(1,226,369)	20,758,775
Total Unassigned	23,858,001	(1,872,857)	(1,226,369)	20,758,775
Total Fund Balance	\$ 28,193,972	\$ (1,872,857)	\$ 11,396,817	\$ 37,717,932

¹Includes Stabilization fund balance of \$12,547,064

18. Interfund Transfers

The government reports interfund transfers between many of its funds. The sum of all transfers presented in the table agrees with the sum of interfund transfers presented in the governmental and proprietary fund financial statements. The following is an analysis of interfund transfers made in fiscal year 2013:

<u>Governmental Funds:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 3,431,365	\$ 2,024,527
High School Renovations	300,000	-
Internal Service Fund	-	202,000
Nonmajor Funds:		
Special Revenue Funds:		
Water	513,000	950,505
Sewer	1,211,527	1,110,237
Highway	-	872,256
School Choice	-	62,000
Gallagher Building	-	109,226
Other Special Revenue Funds	-	55,910
Trust Funds:		
Expendable- Perpetual Care	-	69,231
Subtotal Nonmajor Funds	<u>1,724,527</u>	<u>3,229,365</u>
Grand Total	\$ <u>5,455,892</u>	\$ <u>5,455,892</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) use unrestricted revenues collected in the general fund to finance various programs and accounted for in other funds in accordance with budgetary authorizations.

19. Commitments and Contingencies

Grants - Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

Abatements - There are several cases pending before the Appellate Tax Board in regard to alleged discrepancies in property assessments. According to the City's counsel, the probable outcome of these cases at the present time is indeterminable, although the City expects such amounts, if any, to be immaterial.

Sewer Infiltration/Inflow Project - The City is under a 1996 Administrative Consent Order issued by the Department of Environmental Protection to

improve its sewer inflow/infiltration system. The City funded the first two phases of the remediation through a low-interest loan program administered by the Massachusetts Water Pollution Abatement Trust Fund (MWPAT). The projects were substantially completed at the end of fiscal year 2002. The related loan balances, originally issued in the amounts of \$942,300 and \$1,894,943, are reported as long-term obligations of the City. The final phase was completed in September 2006.

In June 2002, the City received an Administrative Consent Order and Notice of Noncompliance for not fully complying with the 1996 consent order. It is anticipated that the June 2002 order will be partially satisfied through remediation (beginning in July 2007) and is estimated to cost approximately \$1,000,000, which the City intends to fund through user fees. Additionally, the City expects to fully satisfy the order by continued maintenance in conjunction with operational monitoring, to be funded through annual departmental operations. The City expects to be in compliance by December 31, 2013.

Water Filtration Plant - The City is under a 2006 consent order issued by the Department of Environmental Protection to construct a new water filtration plant at Distributing Reservoir. The filtration plant was operational as of June 30, 2011. The City is the recipient of a \$19.26 million dollar grant through the State Revolving Loan Fund (SRF) which will fund the construction of a new water treatment facility as required by the consent order. Additionally, the SRF will fund upgrades to the Notown Water Treatment Plant, the Southeast Wells Pump Station and lines to the Monoosnoc Water Tank. The upgrade began in June of 2011 and the final phase was completed in April of 2013.

Sludge Disposal Agreement - In 1989 the City entered into a 30-year agreement with the City of Fitchburg for sludge removal. The agreement may be terminated with one year's notice. The cost is appropriated annually and is based on actual usage. The annual cost is estimated to be approximately \$480,000 per year.

Wastewater Treatment Facility Upgrades - In September of 2007 the City received notice from the United States Environmental Protection Agency of an order to comply with certain sections of the Clean Water Act relating to National Pollution Discharge Elimination Systems (NPDES). The City is the recipient of a \$20 million dollar grant through the State Revolving Loan Fund (SRF) which funded the upgrades as required by the order. As of June 30, 2012, the City is in compliance.

20. Post-Employment Healthcare and Life Insurance Benefits

GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, requires governments to

account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the Statement of Activities when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Position over time.

A. Plan Description

In addition to providing the pension benefits described in the following note, the City provides post-employment healthcare and life insurance benefits for retired employees through the City's plan. The benefits, benefit levels, employee contributions and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of January 1, 2013, the actuarial valuation date, approximately 948 retirees and 1135 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

The City provides medical, prescription drug, mental health/substance abuse and life insurance to retirees and their covered dependents. All active employees who retire from the City and meet the eligibility criteria will receive these benefits.

C. Funding Policy

Retirees contribute a portion of the cost of the health plan, as determined by the City. The City contributes the remainder of the health plan costs on a pay-as-you-go basis.

D. Annual OPEB Costs and Net OPEB Obligation

The City's annual fiscal year OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the City's annual OPEB cost for the year ending June 30, 2013, the amount actually contributed to the plan, and the change in the City's net OPEB obligation based on an actuarial valuation as of January 1, 2013.

Annual Required Contribution (ARC)	\$ 15,897,307
Interest on net OPEB obligation	1,602,943
Adjustment to ARC	<u>(1,625,454)</u>
Annual OPEB cost	15,874,796
Contributions made	(5,731,580)
Additional Contributions made	<u>(2,835,084)</u>
Increase in net OPEB obligation	7,308,132
Net OPEB obligation - beginning of year	<u>37,424,297</u>
Net OPEB obligation - end of year	<u>\$ 44,732,429</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2009	\$ 13,454,276	37%	\$ 8,486,660
2010	\$ 13,958,055	39%	\$ 16,950,008
2011	\$ 17,462,370	38%	\$ 27,758,739
2012	\$ 18,836,209	49%	\$ 37,424,297
2013	\$ 15,874,796	54%	\$ 44,732,429

The City's net OPEB obligation as of June 30, 2013 is recorded as a long-term liability in the accompanying government-wide financial statement.

E. Funded Status and Funding Progress

The funded status of the plan as of January 1, 2013, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 181,090,368
Actuarial value of plan assets	<u>(2,171,240)</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 178,919,128</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>1.20%</u>
Covered payroll (active plan members)	<u>\$ 64,803,000</u>
UAAL as a percentage of covered payroll	<u>276%</u>

Actuarial valuations of an ongoing plan involve estimates of the value of reported amount and assumptions about the probability of occurrence of events far into the future. Examples included assumptions about future

employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the Notes to Financial Statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

F. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan as understood by the City and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the City and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2013 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the City has not advance funded its obligation. The actuarial assumptions included a 4.30% investment rate of return and an initial annual healthcare cost trend rate of 8.00% which decreases to a 5 - 6% long-term rate for all healthcare benefits after ten years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 26 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 3.25%, and normal cost payment increases at a rate of 6.25%.

21. Contributory Retirement System

The City follows the provisions of GASB Statement No. 27, Accounting for Pensions by State and Local Government Employers, (as amended by GASB 50) with respect to the employees' retirement funds.

A. Plan Description and Contribution Information

Substantially all employees of the City are members of the Leominster Contributory Retirement System (LCRS), a cost-sharing, multiple-employer defined benefit PERS. Eligible employees must participate in the LCRS. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the LCRS Retirement Board. Chapter 32 also establishes contribution percentages and benefits paid. The LCRS Retirement Board does not have the authority to amend benefit provisions. As required

by Massachusetts General Laws, the Contributory Retirement System issues a separate report to the Commonwealth's Public Employee Retirement Administration Commission.

Membership of each plan consisted of the following at December 31, 2012.

Retirees and beneficiaries receiving benefits	391
Terminated plan members entitled to but not yet receiving benefits	95
Active plan members	<u>609</u>
Total	<u>1,095</u>
Number of participating employers	2

Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The percentage is determined by the participant's date of entry into the Contributory Retirement System. All employees hired after January 1, 1979 contribute an additional 2% on all gross regular earnings over the rate of \$30,000 per year. The percentages are as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7%
January 1, 1984 - June 30, 1996	8%
Beginning July 1, 1996	9%

Employers are required to contribute at actuarially determined rates as accepted by the Public Employee Retirement Administration Commission (PERAC). The City's Schedule of Employer Contributions is as follows:

Schedule of Employer Contributions:

<u>Year Ended</u> <u>June 30</u>	<u>Annual Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>
2004	\$ 3,555,376	100%
2005	3,686,988	100%
2006	4,648,322	100%
2007	4,983,069	100%
2008	5,293,353	100%
2009	7,071,586	100%
2010	7,075,241	100%
2011	7,155,958	100%
2012	7,361,432	100%
2013	7,584,631	100%

B. Summary of Significant Accounting Policies

Basis of Accounting - Contributory Retirement System financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments - Investments is reported at fair value in accordance with PERAC requirements.

C. Funded Status and Funding Progress

The information presented below is from the Leominster Contributory Retirement System's most recent valuation (amounts in thousands).

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
01/01/13	\$ 117,110	\$ 146,037	\$ 28,927	80.2%	\$ 24,846	116%

The Schedule of Funding Progress following the Notes to Financial Statements presents multi-year trend information about the actuarial value of plan assets relative to the actuarial accrued liability for benefits.

D. Actuarial Methods and Assumptions

The annual required contribution for the current year was determined as part of the actuarial valuation using the entry age normal actuarial cost method. Under this method an unfunded actuarial accrued liability of \$28.9 million was calculated. The actuarial assumptions included (a) 6.75% investment rate of return and (b) a projected salary increase of 1.50% in 2013, 3.50% in 2014 and 2015. No future cost of living increases have been assumed. The actuarial value of assets is determined by projecting the market value of assets as of the beginning of the prior plan year with the assumed rate of return during that year (6.75%) and accounting for deposits and disbursements with interest at the assumed rate of return. An adjustment is then applied to recognize the difference between the actual investment return and expected return over a five-year period. As of January 1, 2013 the unfunded actuarially accrued liability is being amortized

over 6 years using an approximate level of percent of payroll (closed) method which assumes a 1.50% payroll increase in 2013 and a 3.50% payroll increase in 2014 and 2015.

E. Teachers

As required by State statutes, teachers of the City are covered by the Massachusetts Teachers Retirement System (MTRS). The MTRS is funded by contributions from covered employees and the Commonwealth of Massachusetts. The City is not required to contribute.

All persons employed on at least a half-time basis, who are covered under a contractual agreement requiring certification by the Board of Education are eligible, and must participate in the MTRS.

Based on the Commonwealth of Massachusetts' retirement laws, employees covered by the pension plan must contribute a percentage of gross earnings into the pension fund. The percentage is determined by the participant's date of entry into the system and gross earnings, up to \$30,000, as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7% *
January 1, 1984 - June 30, 1996	8% *
July 1, 1996 - June 30, 2001	9% *
Beginning July 1, 2001	11%

* Effective January 1, 1990, all participants hired after January 1, 1979, who have not elected to increase to 11%, contribute an additional 2% of salary in excess of \$30,000.

In fiscal year 2013, the Commonwealth of Massachusetts contributed \$10,746,744 to the MTRS on behalf of the City of Leominster. This is included in the education expenditures and intergovernmental revenues in the general fund.

22. Self-Insurance

The City self-insures against claims for workers compensation, dental and health insurance coverage. Annual estimated requirements for claims are provided in the City's annual operating budget.

Workers Compensation

The City contracts with an insurance consultant for claims processing of the City's workers compensation policy. Under the terms of its insurance cover-

age, the City is liable for an aggregate liability of \$1,000,000, with a maximum of \$2,000,000. At June 30, 2013, there was no liability for unpaid claims as the City estimates the amount, if any, to be immaterial.

Health Insurance

The City contracts with an insurance carrier for excess liability coverage and an insurance consultant for claims processing of its dental and health insurance plans. Under the terms of its insurance coverage, the City is liable for dental costs incurred up to \$1,000 per enrollee per year and medical claims up to \$100,000 per incident, with a lifetime maximum of \$2 million per enrollee. The policy also includes an aggregate maximum of 125 percent of premiums per policy year. The City's health insurance plans are retrospectively rated (i.e., level monthly payment amounts are adjusted quarterly to reflect actual claims paid). The claims liability at June 30, 2013 represents an estimate of claims incurred but unpaid at year-end, based on past historical costs and claims paid subsequent to year-end.

Changes in the aggregate liability for claims for the year ended June 30, 2013 are as follows:

Claims liability, beginning of year	\$ 5,250,000
Claims incurred/recognized in fiscal year 2013	18,175,051
Claims paid in fiscal year 2013	<u>(18,740,041)</u>
Claims liability, end of year	<u>\$ 4,685,010</u>

23. Beginning Fund Balance Reclassification

The City's major governmental funds for fiscal year 2013, as defined by GASB Statement 34, have changed from the previous year. Accordingly, the following reconciliation is provided:

	Fund Equity 6/30/12 (as previously reported)	<u>Reclassification</u>	Fund Equity 6/30/12 (as restated)
Sewer System Improvements	\$ 5,749,060	\$ (5,749,060)	\$ -
Water System Improvements	(89,113)	89,113	-
Nonmajor Governmental Funds	<u>9,682,405</u>	<u>5,659,947</u>	<u>15,342,352</u>
Total	<u>\$ 15,342,352</u>	<u>\$ -</u>	<u>\$ 15,342,352</u>

24. Implementation of New GASB Standard

The GASB has issued Statement No. 68 *Accounting and Financial Reporting for Pensions*, which is required to be implemented in fiscal year 2015. Management's current assessment is that this pronouncement will have a significant impact on the City's basic financial statements by recognizing as a liability and expense, the City's applicable portion of the City of Leominster's actuarially accrued liability.

CITY OF LEOMINSTER, MASSACHUSETTS
SCHEDULE OF FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2013

(Unaudited)

(Amounts Expressed in thousands)

Employees' Retirement System
December 31, 2012

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
1/1/13	\$117,110	\$146,037	\$28,927	80.2%	\$24,846	116%
1/1/11	\$101,218	\$128,738	\$27,520	78.6%	\$22,408	123%
1/1/10	\$88,936	\$127,047	\$38,111	70.0%	\$24,404	156%
1/1/08	\$99,005	\$118,516	\$19,511	83.5%	\$23,530	83%
1/1/07	\$88,606	\$111,752	\$23,146	79.0%	\$22,775	102%
1/1/06	\$75,143	\$101,959	\$26,816	74.0%	\$22,109	121%
1/1/04	\$62,214	\$92,559	\$30,345	67.0%	\$20,658	147%
1/1/01	\$52,941	\$77,053	\$24,112	68.7%	\$18,178	133%
1/1/98	\$41,568	\$68,432	\$26,864	60.7%	\$15,254	176%
1/1/95	\$24,578	\$49,024	\$24,446	50.1%	\$11,638	210%
1/1/92	\$19,797	\$42,516	\$22,719	46.6%	\$10,700	212%

Other Post-Employment Benefits

June 30, 2013

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
01/01/13	\$ 2,171	\$ 181,090	\$ 178,919	1.2%	\$ 64,803	276.1%
01/01/11	\$ -	\$ 212,007	\$ 212,007	0.0%	\$ 58,941	359.7%
01/01/08	\$ -	\$ 154,772	\$ 154,772	0.0%	\$ 49,165	314.8%

See Independent Auditors' Report.

CITY OF LEOMINSTER, MASSACHUSETTS

STATEMENT OF REVENUES AND OTHER SOURCES, AND EXPENDITURES AND OTHER USES - BUDGET AND ACTUAL

ANNUALLY BUDGETED SPECIAL REVENUE FUNDS

FOR THE YEAR ENDED JUNE 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
	<u>Budget</u>	<u>Budget</u>		<u>Positive</u>
				<u>(Negative)</u>
<u>WATER</u>				
Revenues and Other Sources:				
Charges for services	\$ 5,210,000	\$ 5,935,185	\$ 6,055,732	\$ 120,547
Transfers in	-	513,000	513,000	-
Total Revenues and Other Sources	5,210,000	6,448,185	6,568,732	120,547
Expenditures and Other Uses:				
Public works	3,642,127	4,880,311	4,093,266	787,045
Debt service	1,567,873	1,567,874	1,524,961	42,913
Transfers out	-	-	950,505	(950,505)
Total Expenditures and Other Uses	5,210,000	6,448,185	6,568,732	(120,547)
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ -	\$ -
<u>SEWER</u>				
Revenues and Other Sources:				
Charges for services	\$ 4,500,000	\$ 4,941,998	\$ 5,517,762	\$ 575,764
Transfers in	-	1,211,527	1,211,527	-
Total Revenues and Other Sources	4,500,000	6,153,525	6,729,289	575,764
Expenditures and Other Uses:				
Public works	3,468,228	5,121,753	4,689,691	432,062
Debt service	1,031,772	1,031,772	929,361	102,411
Transfers out	-	-	1,110,237	(1,110,237)
Total Expenditures and Other Uses	4,500,000	6,153,525	6,729,289	(575,764)
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ -	\$ -

See Independent Auditors' Report.